

Message Text

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ACTION EUR-12

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DEPARTMENT PASS TREASURY FOR SYVRUD

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TAGS: ECON, EFIN, EINV, ELAB, EIND, PO

SUBJECT: FINANCE MINISTER SPEAKS ON ECONOMY

1. TWO FORMER SECRETARIES OF STATE, VITOR CONSTANCIO (PLANNING
IN FIRST, SECOND, THIRD AND SIXTH PROVISIONAL GOVERNMENTS)
AND ARTUR SANTOS SILVA FILHO (TREASURY IN THE SIXTH) WERE
SWORN IN JANUARY 17 AS VICE-GOVERNORS OF THE BANK OF PORTUGAL
(BP). FEATURE OF CEREMONY WAS LONGTH SPEECH BY FINANCE
MINISTER MEDINA CARREIRA, HIGHLIGHTS OF WHICH FOLLOW:

A. ALTHOUGH THE 1974 REVOLUTION BROUGHT BENEFICIAL SOCIAL,
ECONOMIC AND POLITICAL CHANGES, IT PROFOUNDLY DISORGAINIZED
THE NATION'S PRODUCTIVE APPARATUS. PRODUCTION, INVESTMENT,
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SAVINGS, AND FOREIGN RESERVES HAVE FALLEN; COMSUMPTION,
UNEMPLOYMENT, PUBLIC BORROWING, INFLATION AND THE BALANCE OF
PAYMENTS DEFICIT HAVE GROWN. AS THE REDISTRIBUTION OF
INCOME WAS NOT ACCOMPANIED BY GROWTH IN INTERNAL
PRODUCTION, IT AGGRAVATED INFLATIONARY PRESSURE AND
BROUGHT "EXTREMELY DANGEROUS" PRESSURE ON BALANCE OF
PAYMENTS. NEW INCOME "INJUSTICES" WERE CREATED AND

FINANCED BY THE BUDGET. THE PRIVATE INVESTOR, BESET FROM ALL SIDES, EITHER FLED OR STAYED ONLY IN RESIGNATION, RARELY CONTINUING TO FUNCTION FULLY.

B. PRELIMINARY ESTIMATES PUT THE 1976 BALANCE OF PAYMENTS DEFICIT AT 35 BILLION ESCUDOS (\$1.1 BILLION) AT CURRENT EXCHANGE RATE). AT THE MOMENT, THERE IS NO BREAKDOWN BETWEEN THE CURRENT AND CAPITAL ACCOUNTS. THE 1977 GOAL OF A \$600-700 MILLION EXTERNAL DEFICIT PRE-SUPPOSES A "VIGOROUS" RECUPERATION OF PRODUCTION AND INVESTMENT. THE COUNTRY CANNOT MAINTAIN CURRENT UNREALISTIC LEVELS OF CONSUMPTION, ESSENTIALLY ALIVING ON THE PRODUCTION OF FOREIGNERS." WHETHER WITHIN A MONTH OR SIX MONTHS, "VERY URGENT" READJUSTMENTS WILL BE FELT.

C. GOP'S MONETARY POLICY, INCLUDING A 30 PERCENT EXPANSION IN BANK CREDIT, HAS NOT CONTRIBUTED TO INFLATION. IT WAS DESIGNED TO COMPENSATE PARTIALLY FOR THE CONTRACTIONARY EFFECT OF THE EXTERNAL DEFICIT. THE BP IS PREPARING NEW MEASURES COVERING BANK RESERVES; INTEREST RATES; ELECTIVE CREDIT SYSTEMS FOR FARMERS, INVESTMENTS, AND INSTALLMENT PURCHASES, ETC.

D. THE GOP MUST, ABOVE ALL, DEFINE A WAGE/PRICE POLICY. COMPANIES WILL HAVE TO OPERATE FROM THEIR OWN RECEIPTS, AND PRICES WILL HAVE TO BE RAISED TO REALISTIC LEVELS. THE STATE BUDGET CANNOT CONTINUE TO SUPPORT DEFICITS WHICH ARE DUE TO SALARY LEVELS EXCEEDING WORKER PRODUCTIVITY.

E. THE GOP MUST CLEARLY DEFINE TREATMENT TO BE GIVEN TO ECONOMICALLY UNVIABLE COMPANIES - A DELICATE MATTER LIMITED OFFICIAL USE

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BECAUSE OF THE EFFECT ON UNEMPLOYMENT. KEEPING SUCH COMPANIES IN OPERATION WOULD ONLY DELAY THE CONSEQUENCES AND DRAG DOWN OTHER VIABLE FIRMS.

F. BECAUSE COMPANIES GENERALLY LACK SUFFICIENT INTERNAL FUNDS FOR INVESTMENTS, THE BANKS MUST CONSTITUTE THEIR PRIMARY FINANCIAL SOURCE. HOWEVER, THE BANKS MUST USE "COLLECTIVE CRITERIA" - I.E., GIVE PRIORITY TO THE PRIMARY SECTORS (AGRICULTURE, CATTLE RAISING, FISHERIES), EXPORT OR IMPORT SUBSTITUTION INDUSTRIES, TOURSIM INFRASTRUCTURE, LABOR-INTENSIVE PROJECTS AND SECTORS WITH A HIGH MULTIPLIER EFFECT.

G. THE GOP MUST:

- INSURE THE PRIVATE SECTOR'S VIABILITY BY ESTABLISHING SATISFACTORY LABOR RELATIONS - IN PRACTICE AS WELL AS IN LAW - AND BY RAPIDLY PASSING LEGISLATION DEMARCATING THE AREAS OPEN BY PRIVATE INITIATIVE;
- CLARIFY ITS INDUSTRIAL POLICY;
- DEFINE THE MECHANISMS OF MANAGEMENT CONTROL; AND
- URGENTLY RESOLVE THE QUESTION OF INDEMNIZATIONS

FOR NATIONALIZED COMPANIES.

2. COMMENT: MEDINA CARREIRA'S SPEECH WAS A GOOD ONE, REFLECTING THE TREND GOP INTENDS TO PURSUE. MUCH OF WHAT HE STATED, HAS, HOWEVER, BEEN SAID OR IMPLIED ON PREVIOUS OCCASIONS. OPPOSITION CRITICS HAVE, AS A RESULT, ACCUSED GOP OF ACTING TOO SLOWLY, BOTH IN TERMS OF WHAT THE NATIONAL ECONOMY REQUIRES AND IN TERMS OF WHAT GOP HAS PROMISED TO DO. ECONOMIC REALITIES, HOWEVER, ARE PUTTING INCREASING PRESSURE ON THE GOVERNMENT TO ACCELERATE ITS PROGRAM. SOARES TOLD US THE OTHER DAY THAT HE CLEARLY INTENDS TO STEP UP THE PACE OF THE NECESSARY AUSTERITY MEASURES NOW THAT ELECTIONS ARE OVER AND THE BUDGET HAS PASSED.

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